

Fitch Rates Lynchburg, VA's GOs 'AA' and BANs 'F1+'

18 Apr 2006 6:06 PM (EDT)

Fitch Ratings-New York-18 April 2006: Fitch Ratings assigns an 'AA' rating to the City of Lynchburg, VA's \$24.2 million general obligation public improvement bonds, series 2006, and an 'F1+' rating to the \$16.5 million general obligation public improvement bond anticipation notes, series 2006. Both series are scheduled for competitive sale on April 26. Fitch also affirms the 'AA' rating on the city's outstanding \$165 million in general obligation (GO) bonds. The Rating Outlook is Stable.

The 'AA' rating reflects the City of Lynchburg's strong financial management, moderate debt levels, and mature economy. Solid reserve levels were maintained during the recession, the result of prompt and effective budget-balancing actions. Manufacturing remains an important job producer, and development efforts are centered on attracting higher paying, goods-producing employment to city industrial parks. Future debt needs are manageable, and the debt burden should remain moderate given the rapid amortization of outstanding bonds and the availability of user fees to support a portion of the city's GO bonds.

Located in central Virginia, Lynchburg has effectively dealt with many of the challenges that face economies historically focused on manufacturing while maintaining its role as a retail center for the large surrounding area. Lynchburg also serves as a regional provider of higher education and health care services. The unemployment rate, which equaled 4.0% as of January 2006, is tracking closer to the state's average and consistently tracks below the national average. Downtown and riverfront redevelopment activity continues to show momentum with significant public and private investment yielding new residential, arts and entertainment, and civic facilities. Per capita income levels, while below average at 75% of the state's and 80% of the nation's figures, are somewhat reflective of the city's significant university population.

Financial management is strong, as evidenced by adherence to formalized policies regarding fund balance, debt affordability, quarterly reporting, and midyear budget reviews. Reserve levels consistently exceed the adopted policy targets. As of the close of fiscal 2005, the city's undesignated general fund balance equaled \$17.5 million, or 13.7% of general fund expenditures and transfers out. Third quarter estimates for fiscal 2006 show an \$8.2 million operating surplus, primarily the result of a change to semi-annual collections of the personal property tax. The fiscal 2007 proposed budget, which incorporates various tax revenue enhancements and expenditure controls, will include a \$7.4 million fund balance appropriation for one time capital expenditures. The budget proposes no changes to the city's personal property and real estate tax rates. City enterprise funds are all healthy, aided by steady rate increases. It should be noted that the city remains under a special consent order to separate its storm water and sanitary sewer systems, and future sewer utility rate increases are envisioned.

Debt levels are manageable and outstanding debt is amortized rapidly. Capital needs outside of the sewer system upgrades are minimal due to the absence of population growth and the presence of an established infrastructure. The six-year \$185 million fiscal 2007-2011 capital improvement program (CIP) addresses capital needs primarily related to transportation, schools, and the water and sewer utility system. Approximately 26% of the CIP is related to the sewer system and compliance with the consent order regarding the CSO issue. Approximately 47% of the current CIP is funded through general obligation bonds with another 19% financed by revenue bonds.

Contact: Kenneth T. Weinstein +1-212-908-0571 or Douglas Offerman +1-212-908-0889, New York.

Media Relations: Christine Pollak, New York, Tel: +1 212-908-0526.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.

Copyright © 2006 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries.